THE CHESAPEAKE AND POTOMAC TELEPHONE COMPANY OF VIRGINIA

NOTES TO SCHEDULE V - PLANT, PROPERTY AND EQUIPMENT

(a) These additions include (1) the original cost (estimated if not specifically determinable) of reused material, which is concurrently credited to material and supplies, and (2) allowance for funds used during construction. Transfers between Plant In Service, Plant Under Construction and Other are also included in Column C.

(b) Items of plant, property and equipment are deducted from the property accounts when retired or sold at the amounts at which they are included therein, estimated if not specifically determinable.

(c) The Company's provision for depreciation is principally based on the remaining life method and straight-line composite rates prescribed by regulatory authorities. The remaining life method provides for the full recovery of the remaining net investment in plant, property and equipment. In 1990, the Company implemented changes in depreciation rates approved by the FCC and state regulators. These changes reflect reductions in estimated service lives of the Company's plant, property and equipment in service. This ruling will allow a more rapid recovery of the Company's investment in plant, property and equipment through closer alignment with current estimates of its remaining economic useful life. For the years 1991, 1990 and 1989, depreciation expressed as a percentage of average depreciable plant was 7.31%, 6.74% and 6.31%, respectively.

(d) Represents reclassifications within the plant, property and equipment accounts and adjustments to capital lease assets.

THE CHESAPEAKE AND POTOMAC TELEPHONE COMPANY OF VIRGINIA

SCHEDULE VIII - VALUATION AND QUALIFYING ACCOUNTS

FOR THE YEARS ENDED DECEMBER 31, 1991, 1990 and 1989

(Dollars in Thousands)

Col. A	Col. B	Col. C		Col. D	Col. E
		Additions			
		(1)	(2)		
Description	Balance at Beginning of Period	Charged to Expenses	Charged to Other Accounts -Note (a)	Deductions -Note(b)	Balance at End of Period
Allowance for Uncollectible Accounts:					
Year 1991	$ 7,192	$11,951	$26,363	$29,935	$15,571
Year 1990	$ 8,209	$11,664	$13,140	$25,821	$ 7,192
Year 1989	$10,490	$ 5,018	$13,145	$20,444	$ 8,209

(a) (i) Amounts previously written off which were credited directly to this account when recovered; and (ii) accruals charged to accounts payable for anticipated uncollectible charges on purchases of accounts receivable from others which were billed by the Company.

(b) Amounts written off as uncollectible.

THE CHESAPEAKE AND POTOMAC TELEPHONE COMPANY OF VIRGINIA

SCHEDULE X - SUPPLEMENTARY INCOME STATEMENT INFORMATION

FOR THE YEARS ENDED DECEMBER 31, 1991, 1990 and 1989

(Dollars in Thousands)

Col. A	Col. B
Item	Charged to Costs and Expenses
1991 Maintenance and Repairs	$247,961
1990 Maintenance and Repairs	$264,592
1989 Maintenance and Repairs	$264,684

Advertising costs for 1991, 1990 and 1989 are not presented, as such amounts are less than 1 percent of total operating revenues.

EXHIBITS

FILED WITH ANNUAL REPORT FORM 10-K

UNDER THE SECURITIES EXCHANGE ACT OF 1934

FOR THE FISCAL YEAR ENDED DECEMBER 31, 1991

THE CHESAPEAKE AND POTOMAC TELEPHONE COMPANY OF VIRGINIA

COMMISSION FILE NUMBER 1-6964

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549

FORM 10-K

|X| ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 1991

OR

|_| TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from to

Commission file number 1-7150

THE CHESAPEAKE AND POTOMAC TELEPHONE COMPANY OF WEST VIRGINIA

A West Virginia Corporation I.R.S. Employer Identification No. 55-0142020

1500 MacCorkle Avenue, S.E., Charleston, West Virginia 25314
Telephone Number 304 343-9911

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
Forty Year 7 1/4% Debentures, due February 1, 2013	New York Stock Exchange
Forty Year 9% Debentures, due May 15, 2015	New York Stock Exchange
Forty Year 9 1/4% Debentures, due July 1, 2019	New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act: None.

THE REGISTRANT, A WHOLLY-OWNED SUBSIDIARY OF BELL ATLANTIC CORPORATION, MEETS THE CONDITIONS SET FORTH IN GENERAL INSTRUCTION J(1)(a) AND (b) OF FORM 10-K AND IS THEREFORE FILING THIS FORM WITH REDUCED DISCLOSURE FORMAT PURSUANT TO GENERAL INSTRUCTION J(2).

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes X No ___

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PART I

UNLESS OTHERWISE INDICATED, ALL INFORMATION IS AS OF MARCH 23, 1992.

PART I

Item 1. Business

THE COMPANY

The Chesapeake and Potomac Telephone Company of West Virginia (Company) is incorporated under the laws of the State of West Virginia and has its principal offices at 1500 MacCorkle Avenue, S. E., Charleston, West Virginia 25314 (telephone number 304-343-9911). The Company is a wholly-owned subsidiary of Bell Atlantic Corporation (Bell Atlantic).

The Company presently serves a territory consisting of two complete "Local Access and Transport Areas" (LATAs) and part of a third LATA. These LATAs are generally centered on a city or other identifiable community of interest, and each LATA marks the boundary within which the Company may provide telephone service.

The Company provides two basic types of telecommunications services. First, the Company transports telecommunications traffic between subscribers located within the same LATA (intraLATA service), including both local and toll services. Second, the Company provides exchange access service, which links a subscriber's telephone or other equipment to the transmission facilities of interexchange carriers which, in turn, provide telecommunications service between LATAs (interLATA service). The Company also provides exchange access service to interexchange carriers which provide intrastate intraLATA long distance telecommunications service (see "Competition - IntraLATA Competition"). (See "Line of Business Restrictions.")

OPERATIONS

The Company's lines of business comprise Local Service, Network Access, Toll Service, and Directory, Billing and Other Services. Local Service includes the provision of local exchange ("dial tone"), local private line, and public telephone services (including service for both Bell Atlantic-owned and customer-provided coin telephones). Among other services provided in this category are Centrex (central office-based switched telephone service enabling the subscriber to make both intercom and outside calls) and a variety of special and custom calling services. Network Access is the provision to interexchange carriers and local exchange carriers of access to the local exchange network for switched transmissions, and provision to subscribers (including end-users) of dedicated private lines for voice and data transmissions. Toll Service includes message toll service (MTS) (calling service beyond the local calling area) within LATA boundaries, and intraLATA Wide Area Toll Service (WATS)/800 services (volume discount offerings for customers with highly concentrated demand). Directory, Billing and Other Services includes directory publishing (both Yellow Pages and White Pages), billing services for interexchange and other carriers and information service providers, and customer premises services such as inside wire installation and maintenance. The Company also provides various operator services.

The Company provides billing and collection services, including recording, rating, bill processing and bill rendering, for interexchange carriers. The largest purchaser of billing and collection services is American Telephone and Telegraph Company (AT&T). During the last several years, however, AT&T ceased its purchase of interstate WATS and private line billing and of billing inquiry services from the Company, as well as its purchase of MTS billing for a small percentage of its total customer base. By October 1991, AT&T had also ceased its purchase of rating and most recording services from the Company. The Company has also entered into arrangements to provide billing services for MCI Communications Corporation (MCI), US Sprint Communications Company (US Sprint) and certain other carriers.

The Company has been making and expects to continue to make significant construction expenditures to meet the demand for communications services and to further improve such services. The total investment in plant, property and equipment increased from $1,453.0 million at December 31, 1989, to $1,485.5 million at December 31, 1990, and to $1,506.6 million at December 31, 1991, in each case after giving effect to retirements, but before deducting accumulated depreciation at such date. Construction expenditures of the Company were $109.7 million in 1990 and $115.2 million in 1991 (see Item 2 - "Properties" for an analysis by component of such expenditures).

The Company is projecting construction expenditures of approximately $115 million for 1992. Most of these funds are expected to be generated internally. Some external financing may be necessary or desirable.

LINE OF BUSINESS RESTRICTIONS

Prior to January 1, 1984, the Company was an associated company of the Bell System and was a wholly-owned subsidiary of AT&T. Pursuant to a court-approved divestiture (Divestiture), AT&T transferred those assets of the Bell System operating companies (BOCs), including the Company, that related to exchange telecommunications, exchange access functions and printed directory advertising to seven newly formed regional holding companies (RHCs), including Bell Atlantic.

The consent decree (Consent Decree) and the plan of reorganization (Plan), which set forth the terms of Divestiture, contained certain provisions relating to the post-Divestiture activities of the RHCs. The Consent Decree's principal restrictions on post-Divestiture activities of the RHCs included prohibitions on providing interexchange telecommunications or information services, engaging in the manufacture of telecommunications equipment and customer premises equipment (CPE)*, or entering into any non-telecommunications businesses without Court approval. The United States District Court for the District of Columbia (Court) has retained jurisdiction over the construction, modification, implementation and enforcement of the Consent Decree.

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* Customer premises equipment includes telephone sets and private branch exchanges (PBXs) used by a customer on the customer's premises to originate, route or receive telecommunications.

On September 10, 1987, the Court issued an opinion eliminating the prohibition on entering into any non-telecommunications business. However, the Court refused to eliminate the restrictions relating to manufacturing or providing interexchange services. With respect to information services, the Court issued an opinion on March 7, 1988 which permitted the RHCs to engage in a number of information transport functions as well as voice storage and retrieval services, including voice messaging and electronic mail offerings and certain information gateway services. The RHCs were generally prohibited, however, from providing the content of the data they transmit. As the result of an appeal by Bell Atlantic, the other RHCs and other parties of the Court's September 10, 1987 decision, the Court of Appeals has ordered the Court to reconsider the RHCs request to provide information content under a standard more favorable to the RHCs. On July 25, 1991, the Court granted that request, but imposed a stay pending appeal of that decision. On October 7, 1991, the Court of Appeals vacated the stay, permitting the RHCs to provide information services.

FCC REGULATION AND INTERSTATE RATES

The Company is subject to the jurisdiction of the Federal Communications Commission (FCC) with respect to interstate services and certain related matters. The FCC prescribes a uniform system of accounts for telephone companies, interstate depreciation rates, and the principles and standard procedures used to separate plant investment, expenses, taxes and reserves between those applicable to interstate services under the jurisdiction of the FCC and those applicable to intrastate services under the jurisdiction of the respective state regulatory authorities (separations procedures). The FCC also prescribes procedures for allocating costs and revenues between regulated and unregulated activities.

Interstate Access Charges

The Company provides intraLATA service but does not participate in the provision of interLATA service except through offerings of exchange access service. The FCC has prescribed structures for exchange access tariffs to specify the charges (Access Charges) for use of the Company's facilities used or available for the origination and termination of interstate interLATA service. These charges are intended to recover the related costs of the Company which have been allocated to the interstate jurisdiction (Interstate Costs) under the FCC's separations procedures.

In general, the tariff structures prescribed by the FCC provide that Interstate Costs of the Company which do not vary based on usage (non-traffic sensitive costs) are recovered from subscribers through flat monthly charges (Subscriber Line Charges), and from interexchange carriers through usage sensitive Carrier Common Line (CCL) charges (see "FCC Access Charge Pooling Arrangements"). Traffic-sensitive Interstate Costs are recovered from carriers through variable access charges based on several factors, primarily usage.

In May 1984, the FCC authorized the implementation of Access Charge tariffs for "switched access service" (access to the local exchange network) and of Subscriber Line Charges for multiple-line business customers (up to $6.00 per month per line). In June 1985, the FCC authorized Subscriber Line Charges for residential and single-line business customers at the rate of $1.00 per month per line, which increased to $2.00 effective June 1, 1986, to $2.60 effective July 1, 1987, to $3.20 effective December 1, 1988 and to $3.50 on April 1, 1989.

As a result of the phasing in of Subscriber Line Charges, a substantial portion of non-traffic sensitive Interstate Costs is now recovered directly from subscribers, thereby reducing the per-minute CCL charges to interexchange carriers. The significant reduction in CCL charges has tended to reduce the incentive to interexchange carriers and their high-volume customers to bypass the Company's switched network via special access lines or alternative communications systems. (See "Competition - Bypass.")

FCC Access Charge Pooling Arrangements

The FCC previously required that all local exchange carriers (LECs), including the Company, pool revenues from CCL and Subscriber Line Charges which cover Interstate Costs associated with the lines from subscribers' premises to telephone company central offices, i.e., the non-traffic sensitive costs of the local exchange network. To administer such pooling arrangements, the FCC mandated the formation of the National Exchange Carrier Association, Inc. (NECA).

Some LECs, including the Company, received more revenue from the pool than they billed their interexchange customers. By an Order adopted in 1987, the FCC changed its mandatory pooling requirements. In accordance with these changes, which were effective April 1, 1989, the Company and its affiliated Bell Atlantic telephone companies withdrew from the pool.

Depreciation

Depreciation rates provide for the recovery of the Company's investment in telephone plant, and are revised periodically to reflect more current estimates of remaining service lives and future net salvage. In January 1988, the FCC issued an Order requiring LECs such as the Company to amortize certain interstate depreciation reserve deficiencies over a five-year period retroactive to January 1, 1987. The Company had previously received such FCC authorization on August 11, 1987, retroactive to January 1, 1987. In August 1991, the FCC ordered the Company to amortize the remaining balance of the reserve deficiencies over the period from July 1991 to June 30, 1992.

Interstate Access Rate of Return

Pursuant to rules it adopted in 1985 and 1986, the FCC prescribes the rate of return on the interstate access services of LECs such as the Company. The FCC has set an 11.25% return for 1991 and beyond. This rate of return serves as a bench- mark for regulation of the Company under price cap regulation. (See "Price Caps.")

The FCC had also adopted rate of return enforcement rules, which require carriers to target their rates to produce the prescribed return and to refund automatically earnings in excess of their allowable return (the prescribed target return plus an increment of 25 basis points on overall earnings or 40 basis points on each of three categories of service). On January 22, 1988, the U.S. Court of Appeals for the District of Columbia Circuit held that the FCC's automatic refund rule was arbitrary and capricious, and remanded the case to the FCC so that it could, if it wished, promulgate a new refund rule. The FCC subsequently stayed indefinitely any requirement that carriers refund excess earnings for the initial enforcement period (October 1985 through December 1986), during which time the prescribed rate of return was 12.75 percent. The FCC has taken no action to revise its enforcement rules. The FCC has, however, permitted access customers to file complaints for damages in which the damages are calculated in accordance with the FCC's automatic refund methodology. Appeals of the FCC's rulings permitting such complaints to be filed were dismissed as premature. The Company has settled the major complaints.

Under FCC-approved tariffs, all of the Bell Atlantic telephone companies are charging uniform rates for interstate access services (with the exception of Subscriber Line Charges) in all Bell Atlantic jurisdictions, and are regarded as a single unit by the FCC for rate of return measurement. A supplementary agreement covers the sharing of these interstate revenues with affiliated Chesapeake and Potomac Telephone Companies.

Price Caps

On September 19, 1990, the FCC adopted "price cap" regulation as a replacement for traditional rate of return regulation for LECs, such as the Company. The new system places a cap on overall prices for interstate services and requires that the cap decrease annually, in inflation-adjusted terms, by a fixed amount which is intended to reflect expected increases in productivity. The price cap level can also be adjusted to reflect "exogenous" changes, such as changes in FCC separations or accounting rules. LECs subject to price caps have somewhat increased flexibility to change the prices of existing services within certain groupings of interstate services, known as "baskets".

Under price cap regulation, the Company can earn a rate of return on overall investment of up to 12.25% (100 basis points over the currently authorized rate of return of 11.25%). If the Company's rate of return is between 100 and 500 basis points above the authorized rate of return (that is, currently, between 12.25% and 16.25%), the Company must share 50% of the earnings above the 100-basis-point level with customers by reducing rates prospectively. All earnings above the 500-basis-point level must be returned to customers in the form of prospective rate decreases. If, on the other hand, the Company's rate of return is more than 100 basis points below the authorized rate of return (that is, currently, below 10.25%), the Company is permitted to increase rates prospectively to make up the deficiency.

LEC price cap regulation took effect on January 1, 1991. The LEC price cap order has been appealed by several parties to the United States Court of Appeals for the District of Columbia Circuit. These appeals are being held in abeyance pending the FCC's resolution of pending petitions for reconsideration. Pending a decision on these appeals, which is unlikely to occur within the next year, price cap regulation remains in effect for the Company.

Computer Inquiry III

In August 1985, the FCC initiated Computer Inquiry III to re-examine its regulations requiring that "enhanced services" (e.g., voice message services, electronic mail, videotext gateway, protocol conversion) be offered only through a structurally separated subsidiary. In 1986, the FCC eliminated this requirement, permitting the Company to offer enhanced services, subject to compliance with a series of nonstructural safeguards designed to promote an effectively competitive market. These safeguards include detailed cost accounting, protection of customer information and certain reporting requirements.

In June 1990, the United States Court of Appeals for the Ninth Circuit vacated and remanded the Computer Inquiry III decisions, finding that the FCC had not fully justified those decisions. On December 20, 1991, the FCC adopted an order on remand which reinstated structural relief upon a company's compliance with the FCC's

Computer III Open Network Architecture (ONA) requirements, and strengthened some of the nonstructural safeguards. In the interim, the Company had filed an interstate tariff implementing the ONA requirements. That tariff became effective on February 2, 1992, subject to further investigation. On March 9, 1992, the Company certified to the FCC that it had complied with all initial ONA obligations and should be granted structural relief for enhanced services. The FCC is expected to rule on that certification after mid-April 1992.

The FCC's December 1991 order has been appealed to various United States Courts of Appeals by several parties. Pending decisions on those appeals, which are not expected to occur before 1993, the FCC's decision remains in effect. If a Court again reverses the FCC, the Company's right to offer enhanced services could be impaired.

FCC Cost Allocation Rules

In 1987, the FCC adopted rules governing (1) the allocation of costs between regulated and nonregulated activities and (2) transactions with affiliates. Pursuant to those rules, the Company has filed a cost allocation manual which has been approved by the FCC.

The cost allocation rules apply to activities that have never been regulated as communications common carrier offerings and to activities that have been pre-emptively deregulated by the FCC. The costs of these activities are removed prior to the separations process and are allocated to non-regulated activities in the aggregate, not to specific services for pricing purposes. Other activities must be accounted for as regulated activities, and their costs will be subject to separations. These include (1) activities which have been deregulated by the FCC without pre-empting state regulation, (2) activities which have been deregulated by a state but not the FCC and (3) "incidental activities", which cannot, in the aggregate, produce more than 1% of a company's revenues.

The affiliate transaction rules generally require that assets be transferred between affiliates at market price, if such price can be established through a tariff or a prevailing price charged to third parties. In the absence of such information, transfers from a regulated to an unregulated affiliate must be valued at the higher of cost or fair market value, and transfers from an unregulated to a regulated affiliate must be valued at the lower of cost or fair market value. Services provided to an affiliate must be valued at tariff rates, or market prices if the service is also provided to unaffiliated entities. If the affiliate does not also provide the service to unaffiliated entities, the price must be determined in accordance with the FCC's cost allocation principles.

The FCC has not made its rules pre-emptive. State regulatory authorities are free to use different cost allocation methods and affiliate transaction rules for intrastate ratemaking, and to require carriers to keep separate allocation records.

Telephone Company/Cable Television Cross-Ownership

In 1987, the FCC initiated an inquiry into whether developments in the cable and telephone industries warranted changes in the "cross-ownership" rules prohibiting telephone companies such as the Company from providing cable service in their service territories directly or indirectly through an affiliate.

On November 22, 1991, the FCC released a Further Notice of Proposed Rulemaking (FNPRM) in its cross-ownership proceedings. The FNPRM proposes to permit telephone companies such as the Company to provide video dial tone service on a common carrier basis.

The FCC also released a First Report and Order (Order) and a Second Further Notice of Inquiry (FNOI). In the Order, the FCC ruled that neither telephone companies that provide video dial tone service, nor video programmers that use these services, are required to obtain local cable franchises. The FNOI asks for comments on whether the FCC should recommend to Congress any changes in the statute prohibiting telephone companies from providing cable service in their telephone service areas.

Interconnection and Collocation

On June 6,1991, the FCC released a Notice of Proposed Rulemaking (NPRM) which proposed to allow third parties to collocate their equipment in, or very near, telephone company offices to provide special access (private line) services to the public. The FCC's stated purpose for the proposed rulemaking is to encourage greater competition in the provision of interstate special access services. The FCC has tentatively concluded that collocating parties would pay the telephone company an interconnection charge that is lower than the existing tariffed rates for similar non-collocated services. In the same release, the FCC issued a Notice of Inquiry (NOI) asking what policies it should adopt in regard to interstate switched access collocation. Comments and replies to the NPRM and NOI have been filed by the Bell Atlantic telephone companies and others. The FCC has not reached a final decision in either part of the proceeding, nor can the Company predict when such a decision will be made.

If the FCC permits increased competition by allowing collocation, the revenues of the Company would be adversely affected, although some of the lost revenues could be offset by increased demand if, as the Bell Atlantic telephone companies requested in their comments, the FCC provides the Company with greater pricing flexibility. Collocation for the provision of switched access services would result in greater revenue losses to the Company than would special access collocation. The Company will not be able to estimate the revenue impact of either type of collocation until the conditions of collocation (if any) are determined and announced by the FCC.

Intelligent Networks

On December 6, 1991, the FCC issued a Notice of Inquiry (NOI) into the plans of the exchange carriers, including the Company, to deploy new "modular" network architectures, such as Advanced Intelligent Network (AIN) technology. The NOI asks what, if any, regulatory action the FCC should take to assure that such architectures are deployed in a manner that is "open, responsive, and procompetitive." The FCC is still accepting comments on this NOI, and the Company cannot predict when the FCC will issue an order in this proceeding.

The results of this inquiry could include a requirement that the Company offer individual components of its services, such as switching and transport, to competitors who will provide the remainder of such services through their own facilities. Such increased competition could divert revenues from the Company. However, deployment of AIN technology may also enable the Company to respond more quickly and efficiently to customer requests for new services. This could result in increased revenues from new services that could at least partially offset the expected competitive losses.

STATE REGULATION AND INTRASTATE RATES

The communications services of the Company are subject to regulation by the Public Service Commission of West Virginia (PSC) with respect to intrastate rates and services, intrastate depreciation rates and other matters.

On April 27, 1988, the PSC approved a stipulation between the Company, AT&T, MCI, US Sprint, the PSC staff and the Consumer Advocate Division which gave the Company flexibility in the pricing of competitive services and provided for a freeze on rates for basic local exchange services through December 31, 1990 and a lifting, on January 1, 1989, of the moratorium on intraLATA toll competition. This "Flexible Regulation Plan" was subsequently extended through December 31, 1991. During 1991, the Company completed implementation of its plan to expand local calling areas and establish a new pricing structure for basic telephone service. In addition, as part of its commitment to continue investing in the telecommunications infrastructure, the Company replaced the last of its electromechanical central office switches with stored program control switches, and added over 13,000 miles of fiber optic cable to its outside plant network.

On March 9, 1990, the West Virginia Legislature enacted legislation which became effective on January 1, 1991, and requires the PSC to cease its regulation of the rates charged by a telephone utility for any service that the PSC finds to be offered in a workably competitive market, unless the PSC finds that to do so would adversely affect the continued availability of adequate, economical, and reliable local telephone service.

On December 20, 1991, the PSC approved, with some modifications, a Stipulation signed by the Company, the Consumer Advocate Division, the PSC Staff, and AT&T. That Stipulation sets forth a new Incentive Regulation Plan which continues the major provisions of the Flexible Regulation Plan, including pricing flexibility for competitive services and a freeze on the rates for basic local exchange services. It also allows the Company to increase charges for directory assistance and Call Waiting, provides the Company some flexibility in setting depreciation rates, and allows the Company to petition for a surcharge to reflect federally mandated separation and accounting changes. The Stipulation also provides for the phased elimination of Locality Rate Area (LRA) charges, which are basic service charges paid by customers who are located farthest from the central office. Under the PSC's order, the freeze on rates for basic service will end on December 31, 1994, instead of on July 1, 1996, as provided in the Stipulation; and the phase-out of LRA charges will end on December 31, 1994, instead of on January 1, 1996, as provided in the Stipulation. The Company has asked the PSC to reconsider its order and to restore the schedules contained in the Stipulation.

On January 6, 1989, AT&T, MCI, and US Sprint filed a complaint to require the Company to reduce intrastate access charges by $3 million. The PSC heard testimony in September, 1989. A decision is pending.

Intrastate Depreciation

On December 31, 1991, the PSC authorized certain revised intrastate depreciation rates which were retroactive to January 1, 1991.

NEW PRODUCTS AND SERVICES

Bell Atlantic® IQ℠ Services

The Company has introduced the Bell Atlantic® IQ℠ Services family of calling features. These features include Ultra Forward, which customers can use to program call-forwarding instructions; Identa Ring℠ service, which allows a single line to have multiple telephone numbers, each with a distinctive ring; Caller ID, which displays the number of the calling party; and Home Intercom, which allows for phone-to-phone dialing within the home.

Information Services

In February 1991, the Company began offering Answer Call, a telephone answering service aimed at residential and small business customers. The Company began offering voice mail in April 1991. The Company also offers electronic mail services, and has conducted service trials for call delivery services.

COMPETITION

Regulatory proceedings, as well as new technology, are continuing to expand the types of available communications services and equipment and the number of competitors offering such services. An increasing amount of this competition is from large companies which have substantial capital, technological and marketing resources.

Bypass

A substantial portion of the Company's revenues from business and government customers is derived from a relatively small number of large, multiple-line subscribers.

The Company faces competition from alternative communications systems, constructed by large end users or by interexchange carriers, which are capable of originating and/or terminating calls without the use of the local telephone company's plant.

Other potential sources of competition are cable television systems, shared tenant services and other non-carrier systems which are capable of bypassing the Company's local plant either completely or partially, through substitution of special access for switched access or through concentration of telecommunications traffic on fewer of the Company's lines.

The Company seeks to meet such bypass competition by maintaining competitive cost-based prices for exchange access (to the extent the FCC and state regulatory authorities permit the Company's prices to move toward costs), by keeping service quality high and by effectively implementing advances in technology. (See "FCC Regulation and Interstate Rates - Interstate Access Charges," "FCC Access Charge Pooling Arrangements," and "Price Caps" above.)

Other potential sources of competition are cable television systems, shared tenant services and other non-carrier systems which are capable of bypassing the Company's local plant either completely, or partially, through substitution of special access for switched access or through concentration of telecommunications traffic on fewer of the Company's lines.

Personal Communications Services

Radio-based personal communications services also constitute potential sources of competition to the Company. The FCC has authorized trials of such services, using a variety of technologies, by numerous companies. On January 16, 1992, the FCC adopted a Notice of Proposed Rulemaking to allocate a portion of the radio spectrum to emerging telecommunications technologies, including Personal Communications Services (PCS). PCS consists of a series of wireless portable telephone services which would allow customers to make and receive calls from any location using small handsets. If implemented, PCS and other similar services would compete with services currently offered by the Company, and could result in losses of revenues to the Company, although the Company may be able to derive new revenues if it obtains authorization to provide PCS or similar new services. If PCS is implemented, the FCC is expected to authorize more than a single service provider in each geographic area.

Centrex

The Company offers Centrex service, which is a central office-based communications system for business, government and other institutional customers consisting of a variety of integrated software-based features located in a centralized switch or switches and extended to the customer's premises primarily via local distribution facilities. In the provision of Centrex, the Company encounters increasing competition from the providers of CPE systems, such as private branch exchanges (PBXs), which perform similar functions with less use of the Company's switching facilities.

Users of Centrex systems generally require more subscriber lines than users of PBX systems of similar capacity. The FCC increased the maximum Subscriber Line Charge on embedded Centrex lines to $6.00 effective April 1, 1989. Increases in Subscriber Line Charges result in Centrex users incurring higher charges than users of comparable PBX systems. The intercommunication portion of Centrex service has been detariffed, which enables the Company to charge rates for these services which offset the effects of such higher Subscriber Line Charges.

IntraLATA Competition

The ability of interexchange carriers to engage in the provision of intrastate intraLATA toll service in competition with the Company is subject to state regulation. The PSC lifted the moratorium on intraLATA toll competition effective January 1, 1989 (see "State Regulation and Intrastate Rates").

Directory

The Company's directory operations continue to face significant competition from other providers of directories, as well as competition from other advertising media.

Operator Services

Alternative operator services providers have entered into competition with the Company's operator services product line.

CERTAIN CONTRACTS AND RELATIONSHIPS

The Company is a party to various arrangements for provision to the Company of management advice and assistance and of technical research and development.

Certain planning, marketing, procurement, financial, legal, accounting, technical support and other management services are provided for the Company on a centralized basis through Bell Atlantic Network Services, Inc. (NSI), a service subsidiary of Bell Atlantic. Bell Atlantic Network Funding Corporation provides financing services to the Company. Prior to 1990, the Company shared the expenses of joint officers with The Chesapeake and Potomac Telephone Company, The Chesapeake and Potomac Telephone Company of Maryland and The Chesapeake and Potomac Telephone Company of Virginia, also wholly-owned subsidiaries of Bell Atlantic. The Company continues to share employees with the above mentioned companies.

The seven RHCs each own (directly or through subsidiaries) a one-seventh interest in Bell Communications Research, Inc. (Bellcore). Pursuant to the Plan, this organization furnishes the RHCs and their BOC subsidiaries with technical assistance such as network planning, engineering and software development, as well as various other consulting services that can be provided more effectively on a centralized basis. Bellcore is the central point of contact for coordinating the efforts of the RHCs in meeting the national security and emergency preparedness requirements of the federal government. It also helps to mobilize the combined resources of the companies in times of natural disasters.

EMPLOYEE RELATIONS

As of December 31, 1991, the Company employed approximately 2,870 persons, representing a 9.0% decrease from the number of employees at December 31, 1990. Approximately one-fourth of these employees are members of the centralized staff of NSI, performing services for the Company on a contract basis.

About 98% of the employees of the Company are represented by the Communications Workers of America, which is affiliated with the AFL-CIO.

Under the terms of the three-year contracts ratified in September 1989 by unions representing associate employees, represented associates received a base wage increase of 2.25% and a cost of living increase of 1.15% in August 1991. Under the same contracts, associates received a Corporate Profit Sharing payment of $480 per person in 1992 based upon the Company's 1991 financial performance.

Item 2. Properties

The principal properties of the Company do not lend themselves to simple description by character and location. At December 31, 1991, the Company's investment in plant, property and equipment consists of the following:

Connecting lines	52%
Central office equipment	34
Land and buildings	7
Telephone instruments and related equipment	1
Other	6
	100%

"Connecting lines" consists primarily of aerial cable, underground cable, poles, conduit and wiring. "Central office equipment" consists of switching equipment, transmission equipment and related facilities. "Land and buildings" consists of land owned in fee and improvements thereto, principally central office buildings. "Telephone instruments and related equipment" consists primarily of public telephone instruments. "Other" property consists primarily of furniture, office equipment, vehicles and other work equipment, capital leases, leasehold improvements and plant under construction.

The Company's central offices are served by various types of switching equipment. At December 31, the number of local exchanges and the percent of subscriber lines served by each type of equipment are as follows:

	1991		1990	
	# of Local Exchanges	% of Subscriber Lines Served	# of Local Exchanges	% of Subscriber Lines Served
Electronic	209	97%	191	92%
Crossbar	7	3	17	6
Step-by-step and other	2	0	12	2
	218	100%	220	100%

An analysis of the estimated components of the Company's construction program for the last two years is as follows:

	(In Thousands)	
	1991	1990
Network growth	$ 44,900	$ 42,100
Network modernization	38,200	34,000
Network replacement	15,400	15,000
Network support	8,300	9,000
Market specific	4,700	6,000
Operations support	2,900	2,000
	114,400	108,100
Allowance for funds used during construction	800	1,600
Total construction program	$ 115,200	$109,700

Item 3. Legal Proceedings

Pre-Divestiture Contingent Liabilities

The Plan provides for the recognition and payment by AT&T and the former BOCs (including the Company) of liabilities that are attributable to pre-Divestiture events but do not become certain until after Divestiture. These contingent liabilities relate principally to litigation and other claims with respect to the former Bell System's rates, taxes, contracts and torts (including business torts, such as alleged violation of the antitrust laws). Except to the extent that affected parties otherwise agree, contingent liabilities that are attributable to pre-Divestiture events are shared by AT&T and the BOCs in accordance with formulas prescribed by the Plan, whether or not an entity was a party to the proceeding and regardless of whether an entity was dismissed from the proceeding by virtue of settlement or otherwise. Each company's allocable share of liability under these formulas depends on several factors, including the type of contingent liability involved and each company's relative net investment as of the effective date of Divestiture. Under the formula generally applicable to most of the categories of these contingent liabilities, the Company's aggregate allocable share of liability is approximately 0.6%.

The Company's share of these liabilities to date has not been material to its financial position or results of operations for any period. While complete assurance cannot be given as to the outcome of any contingent liabilities, in the opinion of the Company's management, any monetary liability or financial impact to which the Company is subject as a result of these contingent liabilities is not expected to be material in amount to the financial position of the Company.

Pending Cases

AT&T and various of its subsidiaries and the BOCs (including in some cases the Company) have been parties to various types of litigation, including litigation involving allegations of violations of antitrust laws and equal employment laws. Most of the litigation alleging violations of the antitrust laws has been resolved. However, other matters are still pending. Damages, if any, ultimately awarded in these remaining actions relating to pre-Divestiture events could have a financial impact on the Company whether or not the Company is a defendant since such damages will be treated as contingent liabilities and allocated in accordance with the allocation rules established by the Plan (see "Pre-Divestiture Contingent Liabilities" above).

While complete assurance cannot be given as to the outcome of any litigation, in the opinion of the Company's management, any monetary liability or financial impact to which the Company would be subject after final adjudication of all of the foregoing actions would not be material in amount to the financial position of the Company.

Item 4. Submission of Matters to a Vote of Security Holders (omitted pursuant to General Instruction J(2)).

PART II

Item 5. Market for the Registrant's Common Equity and Related Stockholder Matters (inapplicable).

Item 6. Selected Financial Data (omitted pursuant to General Instruction J(2)).

Item 7. Management's Discussion and Analysis of Results of Operations. (Abbreviated pursuant to General Instruction J(2)).

This discussion should be read in conjunction with the Financial Statements and Notes to Financial Statements included in the Index set forth on page F-1.

Net Income

The Company incurred a net loss for the year ended December 31, 1991 principally due to the Company's election to adopt Statement of Financial Accounting Standards No. 106, "Employers' Accounting for Postretirement Benefits Other Than Pensions," (Statement No. 106). In conjunction with this adoption, the Company recorded a one-time, non-cash, after-tax charge of $69,964,000, representing the actuarial liability for postretirement health and life insurance benefits attributable to prior service of retired and active employees. Income before the cumulative effect of the change in accounting for postretirement benefits other than pensions increased 6.5% over 1990.

The Company's rates of return to average common equity were (0.4%) and 14.4% for the years ended December 31, 1991 and 1990, respectively. The Company's rates of return on average total capital were ([illegible]) and 11.2% for the years ended December 31, 1991 and 1990, respectively. These decreases in 1991 resulted from the adoption of Statement No. 106.

Operating Revenues for the year ended December 31, 1991 increased $8,615,000 or 1.6% over the same period in 1990. The increase in total operating revenues is comprised of the following:

	Increase (Decrease) (In Thousands)
Local service	$10,669
Network access	9,094
Toll service	(9,402)
Other	(1,746)
	$ 8,615

Local service revenues are earned by the Company from the provision of local exchange, local private line and public telephone services. Local service revenues increased primarily due to the implementation of uniform local calling areas and uniform rates throughout the state. As of December 31, 1991 and 1990, the implementation was approximately 100.0% and 86.4% complete, respectively.

As local calling areas are restructured, many calls which were formerly toll calls are now considered local measured service or flat rate service, depending on the local service option chosen by the customer.

Local service revenues also increased in 1991 due to growth in the total number of network access lines in service of approximately 13,000 lines or 1.9%, and in particular an increase in business lines of approximately 6,000 lines or 3.8%. Additionally, a $3,403,000 or 17.8% increase in revenues from central office features, primarily as a result of increased customer demand for custom calling, centrex and other intelligent network services contributed to the increase in local service revenues.

Effective January 1, 1991, the Federal Communications Commission (FCC) adopted price cap regulation and lowered the authorized rate of return for interstate access services from 12.0% to 11.25%. Price caps, a form of incentive regulation, limit prices rather than profits. The FCC's price cap plan includes a sharing provision whereby interstate earnings above certain thresholds are shared equally with customers, while earnings above substantially higher thresholds are returned entirely to customers. Sharing occurs in the form of temporary prospective rate decreases. The Company reduced its rates for interstate access services on January 1, 1991 to reflect the lower authorized rate of return. In its first Annual Price Cap Tariff filing, effective July 1, 1991, the Company further reduced its rates. These two rate reductions did not have a material impact in 1991.

Network access revenues are received primarily from interexchange carriers (IXCs), for the use of local exchange facilities in providing interstate and intrastate long-distance services to their customers, and from local end user subscribers. Carrier access minutes of use increased 103,606,000 or 5.7%, and related switched access revenues from IXCs increased $8,527,000 or 8.6%. Network access revenues from end user subscribers also increased $811,000 or 2.7%, which primarily resulted from the increase in access lines discussed above.

Toll service revenues decreased primarily due to decreased toll volume resulting from the expansion of local calling areas throughout the state, as discussed previously. In addition, Wide Area Telephone Service (WATS) decreased $2,402,000 or 28.2% due to heavy competition.

Other operating revenues include amounts earned from directory advertising, billing and collection services provided to IXCs, and premises services such as inside wire installation and maintenance. Other operating revenues decreased compared to 1990 primarily due to decreased revenues from the transfer of Bell Atlantic Knowledge Systems, Inc. (BAKS), a wholly owned subsidiary of the Company, to Bell Atlantic Corporation (BAC), effective January 1, 1991. Decreased revenues from the provision of billing and collection services due to lower rates and a reduction in the range of services provided to AT&T also contributed to the overall decrease in other operating revenues. However, increased revenues of $2,125,000 from directory advertising due to higher volumes and rates partially offset the above decreases.

Operating Expenses for the year ended December 31, 1991 increased $7,137,000 from the same period in 1990. The increase in operating expenses is comprised of the following:

	Increase/(Decrease) (In Thousands)
Employee costs	$ (644)
Depreciation and amortization ...	(312)
Taxes other than income	2,218
Other	5,875
	$7,137

Employee costs include salaries, wages, commissions, pension and benefit expenses, and payroll taxes paid directly by the Company. Similar costs incurred by employees of Bell Atlantic Network Services, Inc. (NSI), are allocated to the Company and are included in other operating expenses. During 1991, Bell Atlantic and the Company offered a retirement incentive program to eligible management employees electing retirement (see Note 4 of Notes to Financial Statements).

Employee costs decreased approximately $2,500,000 as a result of the transfer of BAKS to BAC, as discussed previously. BAKS employed an average of 69 employees for the year ended December 31, 1990. These decreases were partially offset by expenses of $303,000 related to the adoption of Statement No. 106, and $229,000 of special termination costs recognized as a result of the retirement incentive program discussed above.

Salary increases for management employees in April 1990 and 1991, and wage increases for associate employees in August 1990 and 1991, partially offset the decrease in employee costs. Per capita increases in medical and dental benefit costs, and increased Company match percentage to employee savings plans also partially offset the decrease in employee costs. The Company continued to address the adverse effects of health care inflation by implementing certain medical cost containment initiatives in 1991 that were included in the aforementioned labor contracts. Additional cost sharing arrangements affecting management employees retiring after December 31, 1991, were also announced during 1991 in an effort to control future health care cost increases.

Depreciation and amortization expense decreased primarily due to the deferral of inside wire amortization and reserve deficiency amortizations (RDAs) of approximately $1,400,000 as directed under the FCC's "Modifications and Clarifications effected by LEC Price Cap Reconsideration Order" dated April 9, 1991. In addition, 1990 results included approximately $800,000 relating to the change in depreciation of small value items (less than $500), retroactive to January 1, 1989, and approximately $600,000 related to BAKS, both of which were not included in 1991 expense.

These decreases were substantially offset by the represcription of interstate and certain intrastate depreciation rates, approved by the FCC on January 28, 1992 and by the Public Service Commission (PSC) on December 31, 1991. Both represcriptions were retroactive to January 1, 1991 and resulted in increased total annual depreciation expense of approximately $2,600,000. In addition, a 1.3% growth in depreciable plant as compared to December 31, 1990, partially offset the overall decrease.

Other operating expenses consist primarily of contract services (including centralized staff costs allocated from NSI), right-to-use fees, materials, rents and other general and administrative expenses. Other operating expenses in 1991 include $2,600,000 of restructure related costs associated with the retirement incentive program, and $2,100,000 of additional costs allocated to the Company by NSI, as a result of its adoption of Statement No. 106. Other operating expenses also include higher expenses associated with increased directory-related expenses, increased sales and product advertising expenses, and other operating expense increases driven by inflation. The above increase was partially offset by the transfer of BAKS to BAC, as discussed previously.

Operating Income Taxes decreased $1,910,000 or 4.8% primarily reflecting lower taxable income in 1991. The Company's effective tax rate for the year ended December 31, 1991 was 35.6% compared to 38.1% for the same period in 1990. A reconciliation of the statutory federal income tax rate to these effective rates is included in Note 6 of Notes to Financial Statements. A discussion of the prospective impact of Statement of Financial Accounting Standards No. 109, "Accounting for Income Taxes," is also included therein.

Loss on Early Extinguishment of Debt for 1989 of approximately $2,863,000 reflects the cost, after taxes, of the call premium, unamortized discount and other expenses associated with the repurchase of the entire issue of $50,000,000, 10.65% debentures, due 2023, discussed below.

Interest Expense for the year ended December 31, 1991 decreased $1,298,000 or 5.3% from the same period in 1990, primarily due to both lower levels of short-term debt and lower rates of interest paid thereon.

Federal Regulatory Developments

In June of 1991, the FCC released a Notice of Proposed Rulemaking (NPRM) which proposed to allow third parties to collocate their equipment in, or very near, telephone company offices to provide special access (private line) services to the public. The FCC's stated purpose for the proposed rulemaking is to encourage greater competition in the provision of interstate special access services. The FCC has tentatively concluded that collocating parties would pay the telephone company an interconnection charge that is lower than the existing tariffed rates for similar non-collocated services. In the same release, the FCC issued a Notice of Inquiry (NOI) asking what policies it should adopt in regard to interstate switched access collocation. Comments and replies to the NPRM and NOI have been filed by Bell Atlantic and others. The FCC has not reached a final decision in either part of the proceeding, nor can the Company predict when such a decision will be made.

If the FCC permits increased competition by allowing collocation, the revenues of the Company would be adversely affected, although some of the lost revenues could be offset by increased demand if, as the local exchange carriers requested in their comments, the FCC provides them with greater pricing flexibility. Collocation for the provision of switched access services would result in greater revenue losses to the Company than would special access collocation. The Company will not be able to estimate the revenue impact of either type of collocation until the conditions of collocation (if any) are determined and announced by the FCC.

Financial Condition

Capital expenditures for the years ended December 31, 1991 and 1990 were $114,381,000 and $108,109,000, respectively. These capital expenditures primarily support the growth and continued modernization of the Company's telecommunications network. These expenditures were funded completely with cash provided by operations (less dividends). The Company is projecting expenditures of approximately $115,000,000 for 1992.

As of December 31, 1991, the Company's debt ratio was 43.6%, compared to 39.7% at December 31, 1990. The debt ratio in 1991 was significantly impacted by the equity reduction associated with the adoption of Statement No. 106. Excluding this effect, the 1991 debt ratio would have been 39.8%. The Company has an outstanding shelf registration, filed with the Securities and Exchange Commission on October 26, 1989, for the issuance of $50,000,000 of debt securities.

Management believes that working capital and available credit facilities are adequate to meet normal operating requirements, and that while presently foreseeable capital requirements will continue to be financed primarily through internally generated funds, some additional long-term financing may be needed to maintain the Company's capital structure within management's guidelines.

Item 8. Financial Statements and Supplementary Data.

The information required by this Item is set forth on pages F-1 through F-27.

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure.

None.

PART III

Item 10. Directors and Executive Officers of the Registrant (omitted pursuant to General Instruction J(2)).

Item 11. Executive Compensation (omitted pursuant to General Instruction J(2)).

Item 12. Security Ownership of Certain Beneficial Owners and Management (omitted pursuant to General Instruction J(2)).

Item 13. Certain Relationships and Related Transactions (omitted pursuant to General Instruction J(2)).

PART IV

Item 14. Exhibits, Financial Statements, Financial Statement Schedules and Reports on Form 8-K.

(a) Documents filed as a part of the report:

(1) Financial Statements

See Index to Financial Statements and Financial Statement Schedules appearing on page F-1.

(2) Financial Statement Schedules

See Index to Financial Statements and Financial Statement Schedules appearing on page F-1.

(3) Exhibits

Exhibits identified in parentheses below, on file with the Securities and Exchange Commission (SEC), are incorporated herein by reference as exhibits hereto.

Exhibit Number (Referenced to Item 601 of Regulation S-K)

3a Certificate of Incorporation of the registrant as amended July 30, 1975, (Exhibit 3a to the Chesapeake and Potomac Telephone Company of West Virginia's Annual Report on Form 10-K for 1985, File No. 1-7150).

3a(1) Articles of Amendment dated August 29, 1990, (Exhibit 3a(1) to the Chesapeake and Potomac Telephone Company of West Virginia's Annual Report on Form 10-K for 1990, File No. 1-7150).

3b By-Laws of the registrant, as amended January 1, 1990, (Exhibit 3b to the Chesapeake and Potomac Telephone Company of West Virginia's Annual Report on Form 10-K for 1989, File No. 1-7150).

4 No instrument which defines the rights of holders of long and intermediate term debt of the registrant is filed herewith pursuant to Regulation S-K, Item 601(b)(4)(iii)(A). Pursuant to this regulation, the registrant hereby agrees to furnish a copy of any such instrument to the SEC upon request.

10a Agreement Concerning Contingent Liabilities, Tax Matters and Termination of Certain Agreements among AT&T, Bell Atlantic, the Bell Atlantic telephone subsidiaries, and certain other parties, dated as of November 1, 1983. (Exhibit 10h to Bell Atlantic Corporation Annual Report on Form 10-K for the year ended December 31, 1983, referred to hereafter as "Bell Atlantic 1983 Form 10-K").